**Bulgarian
Stock
Exchange**

**BULGARIAN
STOCK EXCHANGE**

**Xetra T7 IPO Auction for the Bulgarian Stock Exchange**

User's Guide

Description

An IPO on the Exchange is carried out by an authorized by the issuer exchange member through the admission on the segment for Initial public offerings of the financial instrument, which is offered for underwriting. Generally, the IPO auction resembles a standard auction, but differs in terms of procedure and transparency. Additional information such as: indicative auction price, executable volume and surplus, or, respectively, the best bid and/or ask limit are not published for market participants at any time of the IPO auction phases.

Xetra T7 supports special functions enabling the initial price determination for new financial instruments (IPOs). One functionality is a matching range preset by the lead manager of the IPO. The "IPO matching range" defines the lower and upper limits for the first price determination, offering both lead manager and members certainty that there will be no erratic price fluctuations during the first price determination. The price range is officially entered by the Exchange. The price is determined on the principle of the largest executable volume and the smallest surplus within the IPO matching range. The market participants are informed of the price range via massages entered by the Exchange on the "News Board" window.

Phases of the auction

Fig. 1.
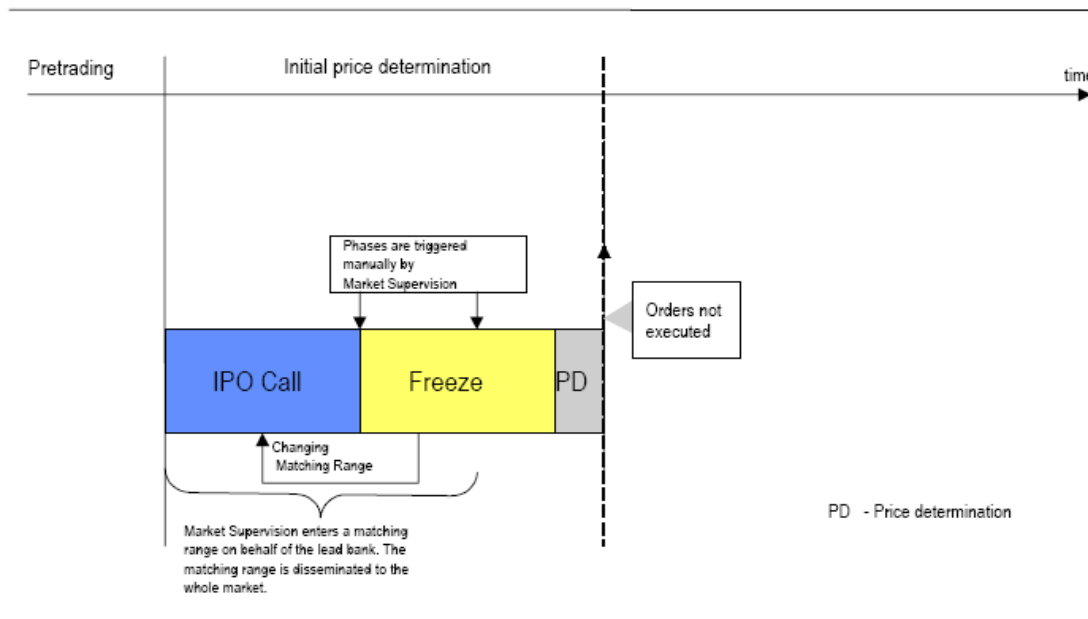
The phases of the auction are initiated manually by the Exchange.

1. Pre-trade phase

Prior to the call-phase of the IPO auction the financial instrument, offered for underwriting, is in the pre-trade phase (BOOK). During the pre-trade phase market participants will be able to enter orders and to modify or delete their existing orders.

2. Call phase

According to the specified start time of the auction, the phase changes to the call-phase (IpoA), and messages are published in the "News Board" window for the start of the auction (fig. 2).

Fig.2.
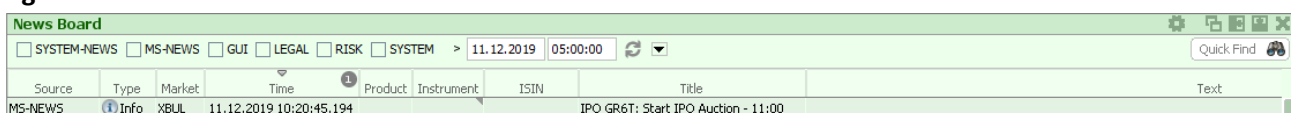
During this phase the Exchange shall enter the IPO Matching Range on behalf of the lead manager. The Matching Range is published to all participants in the News Board window (fig. 3).

Fig. 3.
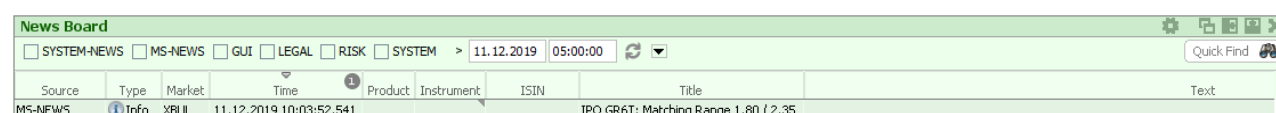
In the case that the lead manager has the right to narrow or broaden the Matching Range, this can happen during the timeframe of the auction, as well as with its explicit extension under the request of the lead manager. The parameters can be technically changed until the end of the Call phase.

During the Call-phase, via the trading platform, market participants can enter buy orders as well as modify or delete their own orders.

The order book is closed to participants. They can only see their own orders, accessible through the window "Orders".

The following types of orders are allowed for exchange members:

•	Limit order – buy orders for a particular amount of shares with a specified limit price. By submitting a limit order all investors agree to receive shares at the price determined by the IPO auction, in the case that this price is equal to or lower than the limit price assigned to the respective order. Limit orders can be executed in their entirety, or as a portion thereof.

•	Market order – buy orders for a particular amount of shares without limit price. By placing a market order, each investor agrees to receive shares at the price determined at the IPO auction. Market orders can be executed in their entirety, or as a portion thereof.

The orders are entered through the standard windows for entering orders in Xetra T7 (Order Entry, Add Order).

The priority for the execution of market orders is determined by the time of their entry, while the priority for limited orders is the price. Market Orders are given priority over Limit Orders.

Note: During the IPO auction, information for the aggregated Order book of all participants in the auction, as well as for the surplus, is visible only to the lead manager via *Print screen.* For all remaining participants in the auction only the following are visible: only their own orders through *the "Orders" window as well as* phases of the auction through the "*Market" window* and through the *"News Board" window.*
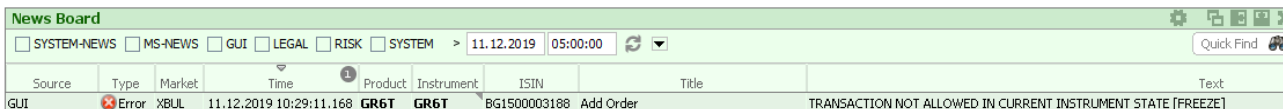
3. IPO Freeze phase

Upon completion of the Call phase, The Exchange will switch to the Freeze phase (IpoF)(fig. 4).

Fig. 4.
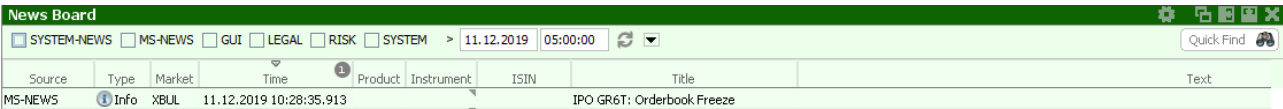
During this phase, market participants will still be able to see their own orders, as well as those of their user group, however, the entry, modification or deletion of orders will be disabled. The order book is frozen to allow the lead manager to assess the market situation. The message from the system during an attempt to enter an order by a market participant during the Freeze phase is: „TRANSACTION NOT ALLOWED IN CURRENT INSTRUMENT STATE [FREEZE]"(fig. 5).

Fig. 5.

Only the lead manager can enter orders during the Freeze phase via the Exchange, by way of trading on behalf.

Decision for price and execution volume is up to the lead manager of the offering. The decision is reflected by entry of a „sell" price within the determined Matching Range during the Freeze phase. The „sell" order of the lead manager is entered officially by the Exchange.

4. Price determination phase

Following the entry of the order of the lead manager the Exchange manually initiate the Price determination phase, executing existing orders at the auction price within the limits of the IPO matching range. Fulfillment of the „buy" orders is executed from the highest „buy" price down to the determined by the lead manager „sell" price (the lowest price, at which the order will be fulfilled), and is in the full executable volume for this price range. In a scenario where only market "buy" and "sell" orders are in the orderbook during the timeframe of the auction, the auction price is equal to the reference price determined by the issuer with the admission application, independent of "buy" and "sell" quantities being equal or a surplus being present on one of the sides.

Example:

Table 1: Orders entered during the Call phase with the price range 1,80 – 2,35 BGN.:

1. Buy Quantity	2. Sell Quantity	3. Price	4. Executable quantity	5. Surplus
6 000 000		M		
7 000 000		2.800		B 7 000 000
7 260 000		2.700		B 7 260 000
7 410 000		2.000		B 7 410 000
8 910 000		1.990		B 8 910 000
9 498 962		1.970		B 9 498 962
9 554 962		1.950		B 9 554 962
9 804 962		1.900		B 9 804 962
9 954 962		1.850		B 9 954 962
10 755 018		1.820		B 10 755 018

Note: Quantities, shown in columns 1 and 2, are cumulative. Quantities in columns 4 and 5 are the results of columns 1 and 2.

Table 2: Situation of the order book during the freeze phase:

1. Buy Quantity	2. Sell Quantity	3. Price	4. Executable quantity	5. Surplus
6 000 000		M		
7 000 000		2.800		B 7 000 000
7 260 000		2.700		B 7 260 000
7 410 000		2.000		B 7 410 000

8 910 000		1.990		B 8 910 000
9 498 962		1.970		B 9 498 962
9 554 962		1.950		B 9 554 962
9 804 962		1.900		B 9 804 962
9 954 962		1.850		B 9 954 962
10 755 018		1.820		B 10 755 018

Table 3: Situation of the order book during the freeze phase after entry of the order of the lead manager with the price 1,99 and quantity 8 694 962:

1. Buy Quantity	2. Sell Quantity	3. Price	4. Executable quantity	5. Surplus
6 000 000		M		
7 000 000	8 694 962	2.800	7 000 000	A 1 694 962
7 260 000	8 694 962	2.700	7 260 000	A 1 434 962
7 410 000	8 694 962	2.000	7 410 000	A 1 284 962
8 910 000	8 694 962	1.990	8 694 962	B 215 038
9 498 962		1.970		B 9 498 962
9 554 962		1.950		B 9 554 962
9 804 962		1.900		B 9 804 962
9 954 962		1.850		B 9 954 962
10 755 018		1.820		B 10 755 018

Table 4: As a result of the price determination phase in accordance with the principle of highest executable volume and smallest surplus, the following transactions are executed with total quantity 8 694 962 shares:

	Executed quantity	Price
1	6 000 000	1.99
2	1 000 000	1.99
3	260 000	1.99
4	150 000	1.99
5	1 284 962	1.99

With the Price determination phase and execution of the „buy"orders, the market participants are informed through the "News Board" window for the auction end (fig. 6).

Fig. 6
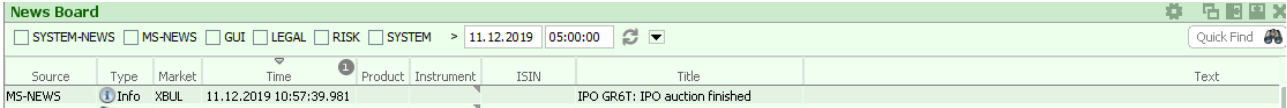
In the event that there is more than one auction planned during several consecutive days, at the end of the auction on the first day the financial instrument goes to the SUSP phase, with which all existing and unexecuted orders are deleted.